

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
COOPERATIVE BOARD MEMBERS AND OFFICIAL NEWSPAPER
June 30, 2011

Member School Districts

Arlington School District No. 38-1
Britton-Hecla School District No. 45-4
Castlewood School District No. 28-1
Clark School District No. 12-2
De Smet School District No. 38-2
Deubrook School District No. 5-6
Deuel School District No. 19-4
Elkton School District No. 5-3
Enemy Swim Day School
Estelline School District No. 28-2
Florence School District No. 14-1
Grant-Deuel School District No. 25-3
Hamlin School District No. 28-3
Henry School District No. 14-2
Iroquois School District No. 02-3
Lake Preston School District No. 38-3
Rosholt School District No. 54-4
Sioux Valley School District No. 5-5
Summit School District No. 54-6
Waubay School District No. 18-3
Waverly-South Shore School District No. 14-5
Webster School District No. 18-4
Willow Lake School District No. 12-3
Wilnot School District No. 54-7

Board of Directors –
Board Members from
School Districts

Garth Johnson
Roger Gresh, President
Harry Boner
John Guest
Norman Koehlmoos
Carie Knutson
Paul Witte
Tim Bauer
Evelyn Blacksmith
Linda Mennenga
Tracy Hlavacek
John Tol
Paul Roe
Neil Jensen
Mary Jane Fast
Brian Nelson
Mary Jo Pearson, Vice President
Polly Larson
Corrie Quale
Cheryl Berger
Dennis Thyen
Kathy Meland
Jessica Michalski
Denise Lutkemeier

Director:

Jerry Aberle

Business Managers:

Matthew Flett

Official Newspaper:

Watertown Public Opinion

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
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WILLIAM NEALE & CO., P.C.

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Cooperative Board
Northeast Educational Services Cooperative No. 28-201
Hamlin County, South Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeast Educational Services Cooperative No. 28-201, South Dakota (Cooperative), as of June 30, 2011 and for the year then ended, which collectively comprise the Cooperative's basic financial statements and have issued our report thereon dated October 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2011-01 to be a material weakness.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2011-02 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Northeast Educational Services Cooperative's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. We did not audit the Cooperative's responses and, accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management of the Cooperative in a separate communication dated October 7, 2011.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, and the governing board and management of the Northeast Educational Services Cooperative No. 28-201, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

William Neale & Co., P.C.

Watertown, South Dakota
October 7, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Cooperative Board
Northeast Educational Services Cooperative No. 28-201
Hamlin County, South Dakota

Compliance

We have audited the Northeast Educational Services Cooperative No. 28-201, South Dakota (Cooperative) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Cooperative's major federal programs for the year ended June 30, 2011. The Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Cooperative's management. Our responsibility is to express an opinion on the Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Cooperative's compliance with those requirements.

In our opinion, the Northeast Educational Services Cooperative No. 28-201, South Dakota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cooperative's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, the governing board and management of the Northeast Educational Services Cooperative No. 28-201, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 Section .320, this report is a matter of public record and its distribution is not limited.

William Neale & Co., P.C.

Watertown, South Dakota
October 7, 2011

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2011

PRIOR AUDIT FINDINGS

2010-01

Finding: A material weakness was reported for a lack of segregation of duties over the revenue function. The finding for a lack of segregation of duties over the revenue function has not been corrected and has been restated as current audit finding number 2011-01.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

A. SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS

1. An unqualified opinion was issued on the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.
2. A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties over the revenue function as discussed in finding number 2011-01. A significant deficiency was disclosed by our audit of the financial statements for a lack of internal controls and accounting expertise in place at the Cooperative to prevent, detect, and correct a potential misstatement when preparing the financial statements, related notes, and required supplementary information as discussed in finding number 2011-02.
3. Our audit did not disclose any noncompliance which was material to the financial statements.
4. An unqualified opinion was issued on compliance with the requirements applicable to major programs.
5. Our audit did not disclose any audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a).
6. The federal awards tested as major programs was the Special Education Cluster which includes the Special Education - Grants to States (84.027), Special Education - Preschool Grants (84.173), ARRA - Special Education - Grants to States (84.391), and ARRA - Special Education - Preschool Grants (84.392)
7. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
8. The Northeast Educational Services Cooperative No. 28-201 did not qualify as a low-risk entity.

B. CURRENT FEDERAL COMPLIANCE AUDIT FINDINGS

There are no current federal compliance audit findings to disclose.

C. CURRENT OTHER AUDIT FINDINGS

2011-01

Finding: A material weakness was reported for a lack of segregation of duties over the revenue function resulting in decreased reliability of reported financial data and increased potential for loss of public assets.

Analysis: The lack of segregation of duties over the revenue function results in inadequate controls over financial reporting that could adversely affect the Cooperative's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: We recommend that the school board be cognizant of this lack of segregation of duties over the revenue function and attempt to provide compensating internal controls whenever and wherever possible and practical.

Response: The school board has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties. The Cooperative is aware of this problem and is attempting to provide compensating controls whenever and wherever possible and practical.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

2011-02

Finding: A significant deficiency was reported for a lack of internal controls and accounting expertise in place at the Cooperative to prevent, detect, and correct a potential misstatement when preparing the financial statements, related notes, and required supplementary information.

Analysis: Because of a lack of internal controls and accounting expertise in place at the Cooperative, there is potential for a misstatement in the financial statements, related notes, and required supplementary information.

Recommendation: We recommend that the Cooperative ensure that the individual making all management decisions and performing all management functions relating to the financial statements, related notes, and required supplementary information and accepting full responsibility for such decisions have the necessary skills, knowledge, or experience.

Response: Management has requested that our firm assist with the preparation of the Cooperative's financial statements, related notes, and required supplementary information.

INDEPENDENT AUDITORS' REPORT

Cooperative Board
Northeast Educational Services Cooperative No. 28-201
Hamlin County, South Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeast Educational Services Cooperative No. 28-201, South Dakota (Cooperative), as of June 30, 2011, and for the year then ended, which collectively comprise the Cooperative's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northeast Educational Services Cooperative No. 28-201, South Dakota, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Budgetary Comparison Schedules on pages 28 through 31 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Cooperative has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cooperative's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

William Neale & Co., P.C.

Watertown, South Dakota
October 7, 2011

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities
ASSETS:	
Cash and Cash Equivalents	\$ 733,224.73
Savings Certificates	264,284.31
Other Assets	451,500.91
Capital Assets:	
Land, Improvements & Construction in Progress	1,451.00
Other Capital Assets, Net of Depreciation	<u>287,036.24</u>
Total Assets	<u>1,737,497.19</u>
LIABILITIES :	
Accounts Payable	48,879.82
Other Current Liabilities	316,443.07
Deferred Revenue	<u>202,750.17</u>
Total Liabilities	<u>568,073.06</u>
NET ASSETS:	
Invested in Capital Assets	288,487.24
Restricted for:	
Special Education	825,285.46
Unrestricted	<u>55,651.43</u>
TOTAL NET ASSETS	<u>\$ 1,169,424.13</u>

The notes to the financial statements are an
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Primary Government
			Contributions	Contributions	Governmental
					Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 1,055,482.21	\$ 991,005.72	\$ 58,445.00	\$ -	\$ (6,031.49)
Support Services	3,084,914.13	722,324.93	2,178,909.33	-	(183,679.87)
Total Governmental Activities	4,140,396.34	1,713,330.65	2,237,354.33	-	(189,711.36)
Total Primary Government	\$ 4,140,396.34	\$ 1,713,330.65	\$ 2,237,354.33	\$ -	(189,711.36)
General Revenues:					
Unrestricted Investment Earnings					14,091.50
Other General Revenues					50,731.04
Total General Revenues					64,822.54
Change in Net Assets					(124,888.82)
Net Assets - Beginning					1,294,312.95
Net Assets - Ending					\$ 1,169,424.13

The notes to the financial statements are an
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Special Education Fund	Total Governmental Funds
ASSETS:			
Cash and Cash Equivalents	\$ 182,853.59	\$ 550,371.14	\$ 733,224.73
Savings Certificates	-	264,284.31	264,284.31
Accounts Receivable, Net	98.67	13,748.29	13,846.96
Due from Other Governments	54,426.00	380,304.00	434,730.00
Interest Receivable	-	1,923.95	1,923.95
Deposits	1,000.00	-	1,000.00
TOTAL ASSETS	\$ 238,378.26	\$ 1,210,631.69	\$ 1,449,009.95
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts Payable	\$ 4,950.08	\$ 43,929.74	\$ 48,879.82
Contracts Payable	-	241,360.16	241,360.16
Payroll Deductions and Withholdings and Employer Matching Payable	-	75,082.91	75,082.91
Deferred Revenue	177,776.75	24,973.42	202,750.17
Total Liabilities	182,726.83	385,346.23	568,073.06
Fund Balances:			
Restricted			
Special Education	-	540,258.88	540,258.88
Assigned			
Subsequent Year's Budget	7,000.00	285,026.58	292,026.58
Unemployment	830.54	-	830.54
Unassigned	47,820.89	-	47,820.89
Total Fund Balances	55,651.43	825,285.46	880,936.89
TOTAL LIABILITIES AND FUND BALANCES	\$ 238,378.26	\$ 1,210,631.69	\$ 1,449,009.95

The notes to the financial statements are an
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total Fund Balances - Governmental Funds	\$ 880,936.89
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	Cost of capital assets	528,980.20	
	Accumulated depreciation	<u>(240,492.96)</u>	
	Net		<u>288,487.24</u>

Net Assets - Governmental Funds	<u>\$ 1,169,424.13</u>
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The notes to the financial statements are an
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General Fund	Special Education Fund	Total Governmental Funds
Revenues:			
Tuition and Fees:			
Regular Day School Tuition	\$ -	\$ 696,090.83	\$ 696,090.83
Summer School Fees	-	56,931.54	56,931.54
Earnings on Investments and Deposits	2,144.72	11,946.78	14,091.50
Other Revenue from Local Sources:			
Services Provided Other LEAs	63,922.63	-	63,922.63
Refund of Prior Years' Expenditures	-	138.60	138.60
Other	99,343.27	775,694.01	875,037.28
Revenue from State Sources:			
Grants-in-Aid:			
Unrestricted Grants-in-Aid	7,747.89	166,499.54	174,247.43
Other State Revenue	1,000.00	69,670.05	70,670.05
Revenue from Federal Sources:			
Grants-in-Aid:			
Restricted Grants-in-Aid Received from Federal Government Through the State	225,902.40	1,837,204.50	2,063,106.90
Total Revenues	<u>400,060.91</u>	<u>3,614,175.85</u>	<u>4,014,236.76</u>
Expenditures:			
Current:			
Instruction:			
Regular Programs:			
Elementary	70,545.93	-	70,545.93
Special Programs:			
Programs for Special Education	-	978,917.28	978,917.28
Support Services:			
Pupils:			
Guidance	-	24,287.94	24,287.94
Psychological	-	413,796.37	413,796.37
Speech Pathology	-	854,394.48	854,394.48
Student Therapy	-	770,330.79	770,330.79
Instructional Staff:			
Improvement of Instruction	293,772.00	163,347.43	457,119.43
Educational Media	-	34,593.82	34,593.82
General Administration:			
Board of Education	-	58,750.33	58,750.33
Executive Administration	17,163.04	70,802.09	87,965.13

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General Fund	Special Education Fund	Total Governmental Funds
Business:			
Fiscal Services	-	99,205.07	99,205.07
Operation and Maintenance of Plant	-	27,451.56	27,451.56
Operation and Maintenance of Vehicles	5,024.47	82,403.09	87,427.56
Pupil Transportation	6,551.50	-	6,551.50
Special Education:			
Administrative Costs	-	118,310.19	118,310.19
Capital Outlay	-	56,731.20	56,731.20
Total Expenditures	<u>393,056.94</u>	<u>3,753,321.64</u>	<u>4,146,378.58</u>
Excess of Revenues Over (Under) Expenditures	<u>7,003.97</u>	<u>(139,145.79)</u>	<u>(132,141.82)</u>
Other Financing Sources (Uses):			
Sale of Surplus Property	-	6,803.00	6,803.00
Compensation for Loss of Capital Assets	-	1,270.76	1,270.76
Total Other Financing Sources (Uses):	<u>-</u>	<u>8,073.76</u>	<u>8,073.76</u>
Net Change in Fund Balance	7,003.97	(131,072.03)	(124,068.06)
Fund Balance - Beginning	<u>48,647.46</u>	<u>956,357.49</u>	<u>1,005,004.95</u>
FUND BALANCE - ENDING	<u>\$ 55,651.43</u>	<u>\$ 825,285.46</u>	<u>\$ 880,936.89</u>

The notes to the financial statements are an
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (124,068.06)

Amounts reported for governmental activities in the
 statement of activities are different because:

Governmental funds report capital outlays as
 expenditures; however, in the statement of activities
 the cost of those assets is allocated over their
 estimated useful lives and reported as depreciation
 expense. This is the amount by which capital
 outlays exceeded depreciation in the current period.

Capital Outlays	56,731.20	
Depreciation Expense	<u>(47,801.96)</u>	
		8,929.24

In the statement of activities, gains (\$0) and losses
 (\$2,947.00) on disposal of capital assets are reported,
 whereas, in the governmental funds, the proceeds
 (\$6,803.00) from the disposal of capital assets are
 reflected, regardless of whether a gain or loss is
 realized.

(9,750.00)

Change in Net Assets of Governmental Activities \$ (124,888.82)

The notes to the financial statements are an
 integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ <u>4,596.49</u>
Total Assets	<u>4,596.49</u>
LIABILITIES:	
Amounts Held for Others	<u>4,596.49</u>
Total Liabilities	<u>4,596.49</u>
NET ASSETS	<u>\$ -</u>

The notes to the financial statements are an
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cooperative conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Northeast Educational Services Cooperative No. 28-201 (Cooperative), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Cooperative is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the Cooperative (primary government). The Cooperative may also be financially accountable for another organization if that organization is fiscally dependent on the Cooperative. The Cooperative does not have any component units.

The Cooperative is a joint venture that is composed of twenty-four school districts. The Cooperative was formed for the purpose of assisting the member school districts in providing appropriate educational services for all children and to offer, on a cooperative fee assessment basis, services that the member school districts would not be able to provide as effectively or as economically acting alone. Assessments are made based on each member school district's enrollment as listed in the State of South Dakota – Division of Education – Educational Directory. The members of the Cooperative and their relative percentage participation are as follows:

Arlington School District No. 38-1	4.08%
Britton-Hecla School District No. 45-4	7.05%
Castlewood School District No. 28-1	3.84%
Clark School District No. 12-2	5.34%
De Smet School District No. 38-2	4.46%
Deubrook School District No. 5-6	5.02%
Deuel School District No. 19-4	7.11%
Elkton School District No. 5-3	4.55%
Enemy Swim Day School	2.21%
Estelline School District No. 28-2	3.53%
Florence School District No. 14-1	3.09%
Grant-Deuel School District No. 25-3	1.90%
Hamlin School District No. 28-3	9.52%
Henry School District No. 14-2	2.06%
Iroquois School District No. 02-3	2.47%
Lake Preston School District No. 38-3	2.66%
Rosholt School District No. 54-4	2.98%
Sioux Valley School District No. 5-5	7.98%
Summit School District No. 54-6	1.77%
Waubay School District No. 18-3	2.47%
Waverly-South Shore School District No. 14-5	3.13%

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Webster School District No. 18-4	6.82%
Willow Lake School District No. 12-3	2.61%
Wilmot School District No. 54-7	3.35%

The governing board is composed of one representative from each member school district, who is a school board member of the member school district. The governing board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Cooperative's government-wide financial statements include only governmental activities.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Cooperative or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Cooperative financial reporting entity are described below within their respective fund types:

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Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the cooperative, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Special Education Fund – A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the member school districts. This fund is financed by grants and assessments charged to the member school districts. This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-categories and are never considered to be major funds.

Agency Funds – agency funds are used to account for resources held by the Cooperative in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The Cooperative maintains agency funds for the purpose of accounting for the assets held in a trustee capacity for employees and member school districts.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the fiduciary fund types.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

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June 30, 2011

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the Cooperative is 60 days. The revenues which are accrued at June 30, 2011 are the amounts due from the participating member school districts, State, and Federal government through the State. Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Expenditures generally are recognized when the related fund liability is incurred.

All fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified in order to minimize the grossing-up effect on assets and liabilities within the governmental activities column of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental activities column.

Fund Financial Statements

Noncurrent portions of long-term interfund receivables are reported as Nonspendable Fund Balance to the extent that the proceeds from the collection of those receivables are not Restricted, Committed, or Assigned. Current portions of interfund receivables are considered "available spendable resources" and are reported in the appropriate fund balance category.

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

All capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets.

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Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 1,000	N/A	N/A
Buildings	\$ 50,000	Straight-line	50 yrs.
Machinery and Equipment	\$ 5,000	Straight-line	5-10 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition.

f. Program Revenues:

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the Cooperative's taxpayers or citizenry, as a whole. Program revenues are classified into three categories as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

g. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

h. Application of Net Assets:

It is the Cooperative's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

i. Fund Balance Classification Policies and Procedures:

In accordance with Governmental Accounting Standards Board (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Cooperative classifies governmental fund balances as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, which is the Board of Directors, and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board of Directors.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Cooperative uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Cooperative would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Cooperative does not have a formal minimum fund balance policy.

2. **DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK**

The Cooperative follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The Cooperative's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
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June 30, 2011

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk

State law limits eligible investments for the Cooperative, as discussed above. The Cooperative has no investment policy that would further limit its investment choices.

Custodial Credit Risk – Deposits

The risk that, in the event of a depository failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk. As of June 30, 2011, the Cooperative's deposits in financial institutions were not exposed to any custodial credit risk.

Custodial Credit Risk - Investments

The risk that, in the event of the failure of the counterparty to a transaction, the Cooperative will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2011, the Cooperative did not have any investments.

Interest Rate Risk

The Cooperative does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Cooperative's policy has been to credit all income from deposits and investments to the fund making the investment.

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The Cooperative expects all receivables to be collected within one year. All receivables are considered collectible; therefore, no allowances for estimated uncollectibles have been established.

4. INVENTORY

Inventory held for consumption is stated at the cost. The cost valuation method is first in, first out (FIFO).

In the government-wide financial statements and the fund financial statements, the inventory was recorded using the consumption method.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2011 is as follows:

	Balance 7/1/10	Increases	Decreases	Balance 6/30/11
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,451.00	\$ -	\$ -	\$ 1,451.00
Capital assets, being depreciated:				
Buildings	58,849.00	-	-	58,849.00
Machinery and Equipment	463,420.00	56,731.20	(51,471.00)	468,680.20
Total	522,269.00	56,731.20	(51,471.00)	527,529.20
Less: accumulated depreciation for:				
Buildings	5,884.90	1,176.98	-	7,061.88
Machinery and Equipment	228,527.10	46,624.98	(41,721.00)	233,431.08
Total accumulated depreciation	234,412.00	47,801.96	(41,721.00)	240,492.96
Total capital assets, being depreciated, net	287,857.00	8,929.24	(9,750.00)	287,036.24
Governmental activity capital assets, net	\$ 289,308.00	\$ 8,929.24	\$ (9,750.00)	\$ 288,487.24

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	\$ 6,019.00
Support Services	41,782.96
Total depreciation expense – governmental activities	<u>\$ 47,801.96</u>

6. RESTRICTED NET ASSETS

Restricted net assets for the fiscal year ended June 30, 2011 were as follows:

Purpose	Restricted By	Amount
Major Funds:		
Special Education Purposes	Law	<u>\$ 825,285.46</u>

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
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June 30, 2011

7. RETIREMENT PLAN

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Cooperative's share of contributions to the SDRS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$132,286.43, \$134,016.58, and \$154,249.68, respectively, equal to the required contributions each year.

8. RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2011, the Cooperative managed its risks as follows:

Employee Health Insurance:

The Cooperative joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Cooperative pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage also includes a \$2,000,000.00 lifetime maximum payment per person.

The Cooperative does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The Cooperative purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The Cooperative purchases liability insurance for worker's compensation from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

Unemployment Benefits:

The Cooperative has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The Cooperative has committed fund balance in the General Fund in the amount of \$830.54 for the payment of future unemployment benefits.

During the year ended June 30, 2011, no claims for unemployment benefits were paid. At June 30, 2011, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

9. LITIGATION

At June 30, 2011, the Cooperative was not involved in any litigation.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Earnings on Investments and Deposits	\$ -	\$ -	\$ 2,144.72	\$ 2,144.72
Other Revenue from Local Sources:				
Services Provided Other LEAs	179,369.04	179,369.04	63,922.63	(115,446.41)
Other	98,274.65	98,274.65	99,343.27	1,068.62
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	-	10,000.00	7,747.89	(2,252.11)
Other State Revenue	-	500.00	1,000.00	500.00
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in Aid Received from Federal Government through the State	<u>252,677.94</u>	<u>252,927.94</u>	<u>225,902.40</u>	<u>(27,025.54)</u>
Total Revenues	<u>530,321.63</u>	<u>541,071.63</u>	<u>400,060.91</u>	<u>(141,010.72)</u>
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	71,686.89	71,686.89	70,545.93	1,140.96
Support Services:				
Instructional Staff:				
Improvement of Instruction	432,046.98	442,796.98	293,772.00	149,024.98
General Administration:				
Executive Administration	16,587.76	17,160.38	17,163.04	(2.66)
Business:				
Operation and Maintenance of Vehicles	-	-	5,024.47	(5,024.47)
Pupil Transportation	<u>10,000.00</u>	<u>10,000.00</u>	<u>6,551.50</u>	<u>3,448.50</u>
Total Expenditures	<u>530,321.63</u>	<u>541,644.25</u>	<u>393,056.94</u>	<u>148,587.31</u>
Excess of Revenues Over (Under) Expenditures	<u>-</u>	<u>(572.62)</u>	<u>7,003.97</u>	<u>7,576.59</u>
Net Change in Fund Balances	-	(572.62)	7,003.97	7,576.59
Fund Balance - Beginning	<u>48,647.46</u>	<u>48,647.46</u>	<u>48,647.46</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 48,647.46</u>	<u>\$ 48,074.84</u>	<u>\$ 55,651.43</u>	<u>\$ 7,576.59</u>

REQUIRED SUPPLEMENTARY INFORMATION
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Tuition and Fees:				
Regular Tuition	\$ 716,008.95	\$ 716,008.95	\$ 696,090.83	\$ (19,918.12)
Summer School Fees	-	56,931.54	56,931.54	-
Earnings on Investments and Deposits	12,000.00	12,000.00	11,946.78	(53.22)
Other Revenue from Local Sources:				
Refund of Prior Years' Expenditures	-	-	138.60	138.60
Other	750,599.05	750,599.05	775,694.01	25,094.96
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	188,940.23	188,940.23	166,499.54	(22,440.69)
Other State Revenue	35,000.00	35,000.00	69,670.05	34,670.05
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	1,833,860.00	1,837,204.50	1,837,204.50	-
Total Revenues	3,536,408.23	3,596,684.27	3,614,175.85	17,491.58
Expenditures:				
Instruction:				
Special Programs:				
Programs for Special Education	946,817.26	1,003,748.81	978,917.28	24,831.53
Support Services:				
Pupils:				
Guidance	24,391.62	24,391.62	24,287.94	103.68
Psychological	433,661.32	433,661.32	413,796.37	19,864.95
Speech Pathology	874,833.21	874,833.21	854,394.48	20,438.73
Student Therapy	772,047.42	772,047.42	770,330.79	1,716.63
Instructional Staff:				
Improvement of Instruction	194,213.59	197,558.09	170,887.43	26,670.66
Educational Media	40,377.74	40,377.74	34,593.82	5,783.92
General Administration:				
Board of Education	80,659.20	80,659.20	58,750.33	21,908.87
Executive Administration	234,068.78	234,068.78	70,802.09	163,266.69
Business:				
Fiscal Services	105,472.77	105,472.77	99,205.07	6,267.70
Operation and Maintenance of Plant	42,498.08	42,498.08	34,742.76	7,755.32
Operation and Maintenance of Vehicles	153,215.00	153,215.00	124,303.09	28,911.91

REQUIRED SUPPLEMENTARY INFORMATION
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Special Education: Administrative Costs	-	-	118,310.19	(118,310.19)
Contingencies	<u>50,000.00</u>	<u>50,000.00</u>	<u>-</u>	<u>50,000.00</u>
Total Expenditures	<u>3,952,255.99</u>	<u>4,012,532.04</u>	<u>3,753,321.64</u>	<u>259,210.40</u>
Excess of Revenues Over (Under) Expenditures	<u>(415,847.76)</u>	<u>(415,847.77)</u>	<u>(139,145.79)</u>	<u>276,701.98</u>
Other Financing Sources (Uses):				
Sale of Surplus Property	-	-	6,803.00	6,803.00
Compensation for Loss of Capital Assets	<u>-</u>	<u>-</u>	<u>1,270.76</u>	<u>1,270.76</u>
Total Other Financing Sources (Uses):	<u>-</u>	<u>-</u>	<u>8,073.76</u>	<u>8,073.76</u>
Net Change in Fund Balances	<u>(415,847.76)</u>	<u>(415,847.77)</u>	<u>(131,072.03)</u>	<u>284,775.74</u>
Fund Balance - Beginning	<u>956,357.49</u>	<u>956,357.49</u>	<u>956,357.49</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 540,509.73</u>	<u>\$ 540,509.72</u>	<u>\$ 825,285.46</u>	<u>\$ 284,775.74</u>

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2011

1. BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the budgetary basis of accounting. The Budgetary Comparison Schedules present capital outlay expenditures within each function while the financial statements prepared in conformity with USGAAP present capital outlay expenditures as a separate function.

2. BUDGETS AND BUDGETARY ACCOUNTING

The Cooperative followed these procedures in establishing the budgetary data reflected in the schedules:

1. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Expenditures Amount 2011</u>
US Department of Education:			
Pass-Through the SD Department of Education:			
Special Education Cluster:			
Special Education – Grants to States (Notes 2 & 3)	84.027	–	\$1,539,373.50
Special Education – Preschool Grants (Notes 2 & 3)	84.173	–	47,834.00
ARRA – Special Education – Grants to States (Notes 2 & 3)	84.391	–	238,061.00
ARRA – Special Education – Preschool Grants (Notes 2 & 3)	84.392	–	11,936.00
Total Special Education Cluster			<u>1,837,204.50</u>
Education Technology State Grants	84.318	–	120,722.00
Mathematics and Science Partnerships	84.366	–	<u>104,923.00</u>
Total US Department of Education			<u>2,062,849.50</u>
US Department of Health and Human Services:			
Pass-Through the SD Department of Education:			
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems			
	93.938	–	<u>257.40</u>
Total US Department of Health and Human Services			<u>257.40</u>
GRAND TOTAL			<u>\$2,063,106.90</u>

Note 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the cooperative and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 3: This represents a major federal financial assistance program.